

John Engler, Governor

**THE MICHIGAN DEPARTMENT
OF ENVIRONMENTAL QUALITY**

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THE MICHIGAN MUNICIPAL BOND AUTHORITY

Janet Hunter-Moore, Executive Director

Under the Authority of Part 53, Clean Water Assistance, of the Natural Resources
and Environmental Protection Act, 1994 PA 451 and the Shared Credit Ratings Act, 1985 PA 227

Present the

**FISCAL YEAR 1997 ANNUAL REPORT
of the MICHIGAN STATE REVOLVING FUND**

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I. INTRODUCTION

This Fiscal Year (FY) 1997 Annual Report is submitted to the United States Environmental Protection Agency (EPA) in compliance with Sec. 602(b)(10) and Sec. 606(d) of the Federal Water Pollution Control Act, P.L.92-500, as amended. It covers the period from October 1, 1996 to September 30, 1997, highlighting the activities of Michigan's State Revolving Fund (SRF) loan program.

The Michigan Department of Environmental Quality (MDEQ) is the lead agency for this program. The Municipal Facilities Section (MFS) of the Environmental Assistance Division (EAD) continues to serve as the MDEQ's program administrators for the SRF.

The MDEQ and the Michigan Municipal Bond Authority (MMBA) jointly administer this program under the authority of Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451, and 1985 PA 227, the Shared Credit Ratings Act, as amended. The state also conducts its SRF in a manner consistent with requirements established in the federal Water Pollution Control Act (P.L.92-500, as amended) and federal regulation.

We offer this comprehensive public report to detail the activities undertaken to reach the objectives set forth in the final FY1997 Intended Use Plan (IUP). This annual report is submitted to EPA and will be available early in 1998 as a read-only file through the Municipal Facilities Section Home Page found in the World Wide Web on Internet. The Internet address is <http://www.deq.state.mi.us/ead/mfs>.

II. CAPITALIZATION OF SRF

During FY1997, Michigan received a federal grant of \$26,798,013 on May 12, 1997. The state is required to provide a 20 percent match for each federal dollar contributed to capitalize the SRF. To match the FY1997 federal grant, Michigan provided \$5,359,602. The source of this match was derived from state general fund appropriations. In addition to the federal and state capital contributions, the SRF is also capitalized with principal and interest payments from earlier loans and from released funds from debt service reserve accounts. You will note that the federal capitalization grant accounts for less than one-third of the total capital funds for Michigan's SRF. Thus, for FY1997, the total capitalization of the SRF was \$83,583,909. The breakdown is as follows:

Title VI Fund	\$26,798,013
Sec 205(m) Transfers	\$0
State Match	\$ 5,359,602
Principal Repayment	\$15,833,138
Interest Repayment	\$ 8,456,062
Investment Earnings	\$27,137,094

III. PROGRAM ISSUES

Binding commitments made during FY1997 were awarded with an interest rate of 2.25 percent. Repayments are amortized over 20 years with approximately level debt service. There were no guarantees or refinancings provided during this fiscal year. All commitments were made to qualified Section 212 projects.

There were no commitments made to Section 319 non point source projects. We have been working throughout the fiscal year to assess how to develop a program which targets assistance toward agricultural producers for non point source pollution prevention projects. This program is expected to be ready for consideration by the legislature and the governor during the first half of FY1998.

Fulfillment of the "first use" requirement [Sec. 602 (b)(5)] was met by virtue of all communities on the National Municipal Policy list being in compliance, under court order with a fixed schedule, or under construction.

Projects were drawn from the FY1997 Project Priority List administered under provisions set forth in Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451, and its accompanying administrative rules. A copy of this list was submitted to EPA prior to the start of FY1997. Other interested parties may contact the MFS to receive a copy.

The MDEQ continues to promote the SRF in local community meetings, through continued dissemination of the SRF Brochure and Guidance Document, through The Digester, and through participation in various public forums. Staff also continues to use a computerized presentation explaining the SRF. This presentation is targeted toward local community groups and is available in three separate media; slides, overheads and diskette. This presentation can be readily tailored to a specific audience by adding, deleting, or editing the slides. It was created using Microsoft Powerpoint and can be run as a stand-alone file without requiring the software.

Through the efforts of Mr. David Worthington, who is a project manager in the West Unit, the Guidance Document for the SRF was updated to reflect many of the improvements made in the program since its inception. The original SRF Guidance Document was developed earlier this decade by the Department of Natural Resources and a contractor, Temple, Barker and Sloan, with funding assistance from the EPA. The new document reflects changes in Title II requirements which are no longer applicable, as well as improved disbursement processing.

IV. GOALS AND ACCOMPLISHMENTS

A. Short-Term Goals and Accomplishments

Michigan's IUP described five short-term goals to be implemented during FY1997. They were:

1. *To continue on-going revisions to the SRF Procedures Manual chapters. This is a continual process involving staff and management to review and redraft chapters to reflect changes in operational procedures of managing the SRF program.*

Revisions for chapters in Michigan's SRF Procedures Manual were completed as follows:

Introduction to the SRF Procedures Manual -- August, 1997

Chapter II (EPA Interface) -- August, 1997

Chapter IX (Data Management) -- April, 1997

Chapter X (Bidding Document) -- April, 1997

These revisions were accomplished by a team of project managers; Jeff Herrold, Kurt Swendsen, Paul Koleda, Sue Casler, and our section's Information System Support Technician, Dan Clark.

In addition, substantial work during this fiscal year by Mr. Herrold on the SRF Application, and by Mr. Swendsen on Chapter VII (Bond Authority Interface), will permit their completion during FY1998.

2. *Draft legislation to implement a new State Revolving Fund for Drinking Water as a companion program to the Clean Water SRF in Michigan.*

Governor John Engler signed 1997 PA 26 into law on June 17, 1997. This amended 1994 PA 451, the Natural Resources and Environmental Protection Act, to create Part 54, Safe Drinking Water Assistance. Through Part 54, the DWRF became the companion financing program of the SRF for water pollution control.

Development of this new program resulted from the work of MFS staff members Jill Keisling, Steven Kulesia, Ed Moyer, and Anshu Varma, as well as Sheryl Topliff and Richard Benzie from the Drinking Water and Radiological Protection Division (DWRPD). Their work on the DWRF came in addition to their regular program responsibilities. The new program passed both chambers of the legislature with unanimous votes and has garnered widespread interest from local water suppliers.

Prior to the end of FY1997, the development team had written project planning guidance, a Memorandum of Understanding between the MFS/EAD, the MMBA, and the DWRPD, and an Operating Agreement between the MDEQ and the EPA. In addition, the MDEQ produced the FY1998 IUP for the DWRF set-aside funds and held a public hearing on this document. Finally, in September, the MDEQ submitted its first application for set-aside funds under the new program.

The development staff and program managers also worked to identify the administrative structure of the DWRF and staffing needs. In addition, drafting of other guidance documents commenced and a new Microsoft Powerpoint presentation was created to introduce the program as staff began to meet with local officials. Guidance documents for disadvantaged communities, program eligibility, and applications will be finalized and available early in calendar year 1998.

DWRF loans will be first available in the third quarter of FY1998. January 2, 1998 has been identified as the cut-off date for submittal of project plans to be included on the revised IUP. Staff anticipates between 30 and 40 plans to be submitted by this date.

3. *React to the need for establishing a small community hardship assistance program and a viable nonpoint source funding vehicle in conjunction with key stakeholders.*

Chip Heckathorn, West Unit Chief in the MFS, took responsibility to develop Michigan's small community hardship assistance program. Prior to the end of the fiscal year, he had presented a plan to use the state's expected share of federal funds to assist qualified communities in meeting the technical requirements of the SRF. The federal hardship funds will be used to provide loan forgiveness of costs of engineering services relating to the completion of project plans and the preparation of construction documents. The proposal was reviewed within the MFS and advanced to review and discussions in the MDEQ Executive offices. Based on their review and discussions with EPA Region 5 staff, the MFS plans to proceed with this concept as part of the current SRF.

The effort to create a viable use of the SRF to assist non point source pollution prevention continues. Throughout the fiscal year, staff has prepared background information on a specific program to fund projects for non-municipal agricultural producers. It has been decided that \$2 million should be annually appropriated for this purpose. Producers would seek loans directly through participating lending institutions after receiving certificates of

qualification from governmental agencies to be named in law. The SRF would deposit funds to the lending institution to cover the amount of the requested loan, up to \$100,000 and at a rate that is targeted to provide a 4 percent reduction from normal lending rates. As the agricultural producer completes repayment of the loan, the MDEQ funds on deposit at the lender would be returned to the SRF. This protects the corpus of the SRF for use in other projects.

This proposal is still under development within the MDEQ, but it expected to be introduced in the Michigan legislature during FY1998.

4. *To identify and establish a technical assistance program for municipal revenue system development focused on pollution prevention.*

Mr. Robert Schneider of the Technical Support Unit drafted a proposal in June, 1997 which identified ways in which the MFS could broaden its technical assistance program.

However, realization of this short-term goal has been postponed in order to coordinate with development of the DWRF revenue system, as well as coordinate with capacity development requirements of the Safe Drinking Water Act.

The intent of the MFS is to create compatible programs for both the SRF and the DWRF for review of revenue systems and provision of technical assistance introducing pollution prevention objectives. We anticipate further activity toward accomplishing this goal during FY1998.

5. *To work with EPA and the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA) to promote reauthorization of the federal Clean Water Act and to secure necessary state funds to ensure that Michigan is in position to take advantage of such reauthorization.*

Michigan continues to play an important oversight role through ASIWPCA and the Council of Infrastructure Financing Authorities (CIFA). Staff also continues a relationship with the National Governors' Association. MFS program managers provide technical assistance to, and participate with these major organizations in hopes of advancing the national goals of "swimmable, fishable waters".

6. *To fund those projects identified in the IUP, enabling them to proceed with construction of facilities included in their adopted project plan.*

No projects were funded in the first quarter of FY1997. This follows the normal pattern of activity. Five projects totaling \$17,080,000 closed during the second quarter; three closed during the third quarter for \$7,555,000; and eight fourth quarter projects received binding commitments equaling \$79,525,000. For the full fiscal year, the MDEQ and the MMBA committed \$104,160,000 to 16 projects, bringing the commitments made from inception of the SRF to \$706.8 million. Closings have taken place on 130 projects during the life of the SRF to date.

B. Long-Term Goals and Accomplishments

Michigan's IUP also included six long term goals that would be addressed by the SRF. They were:

1. *To achieve and maintain statewide compliance with state and federal laws, as well as Michigan's water quality standards.*

The SRF is a major inducement for local municipalities to cooperate and voluntarily seek to achieve compliance with state and federal laws and water quality standards.

The MDEQ maintains a core belief that achievement of pollution prevention is far more cost-effective than paying for clean-ups after the fact. To this end, the department is working to enhance compliance efforts through greater education and outreach within several targeted industries, commerce, and local units of government.

Each potential project is examined to ensure compliance with water quality standards, while also meeting criteria to establish the solution as the cost-effective alternative in order to protect the viability of the SRF.

Michigan's SRF program continues to provide substantial assistance in funding combined sewer overflow (CSO) abatement efforts. Chart 3 identifies the total expenditures for each type of project category. It shows that CSO assistance is only 8.4 percent of the current fiscal year's binding commitments. This is down from a high of 40 percent, due to earlier funding of the Wayne County Downriver projects. Over the life of the SRF, 48 cents of every dollar loaned has been used for correction of CSO problems.

The SRF will continue to fund necessary CSO projects as they arise, however the major contribution to corrections occurring throughout the earlier years is now reduced as Michigan continues to address a wider scope of projects within municipalities across the state. However, the reduction in CSO expenditures may be temporary since Phase II Rouge River projects and those from the city of Detroit may enter the SRF within the next few years.

2. *To protect the public health and environmental quality of our state.*

Inherent within the program is our resolve to first protect the public's health and welfare. Our priority system is structured to give greatest weight to problems which most impact the health of Michigan's citizens and environmental integrity of our state. This commitment runs across the state, but is especially noteworthy for the accomplishments in Grand Rapids, Lansing and Southeastern Michigan for the construction of CSO abatement projects. Earlier visible reminders of untreated outfall are much less prevalent today to those using the Grand and Rouge Rivers for recreational activities and to those that depend on these rivers for their livelihood. The SRF has also been instrumental in assisting smaller, outstate communities in constructing their projects.

3. *To develop a linked-deposit financing component of the SRF to provide easier access integrating Section 319 non point source pollution control projects into the mainstream of the SRF.*

See number 3 under Short-Term Goals. Before this program is operational, the legislature must agree that a financing program for agricultural producers makes sense. It will require an expansion of the definition of qualified participants, since the current language of the law allows the MDEQ to only provide assistance to municipalities.

4. *To further integrate principles of watershed management and water quality restoration within urban, as well as outstate, areas.*

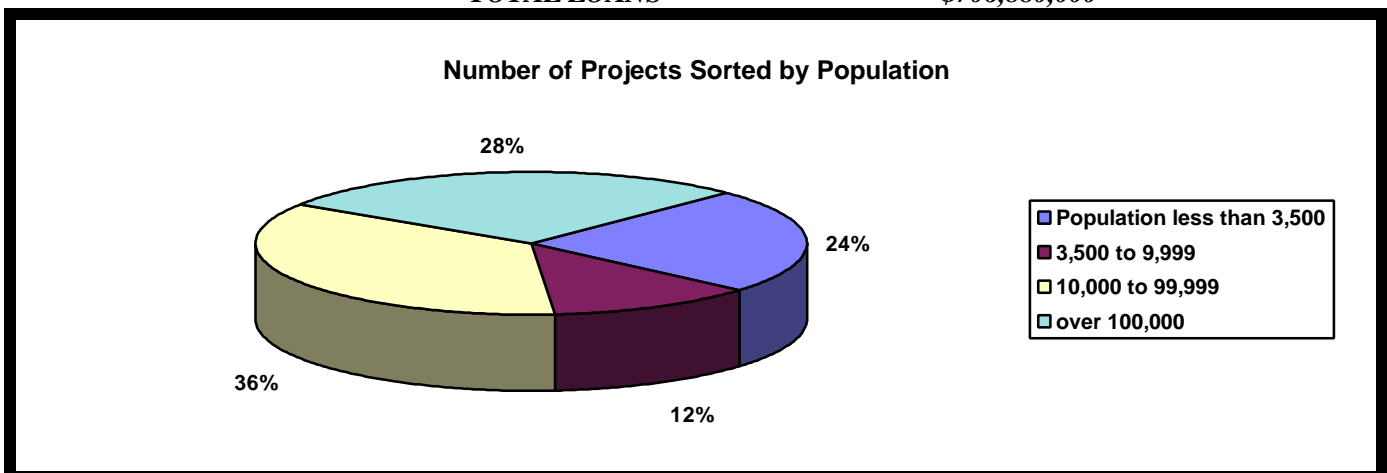
The SRF data management system has been designed to identify major watersheds for each project. This will facilitate closer cooperation of field staff and central managers to oversee projects that will impact entire watershed areas. It is possible now to pull information from the system that will draw from the river basin codes.

We have already sought to incorporate the watershed sensitivity into our project management. A good example continues to be the commitment to the city of Lansing for its CSO strategy, which minimizes pollutants in the Grand River watershed. Our continuing efforts to work with communities in the Rouge River watershed in addressing their needs also reflects our commitment to watershed management.

5. *To secure Michigan's full share of federal funding available under Title VI and to expeditiously obligate these moneys, along with state contributions for the construction of water pollution control activities that meet state and federal requirements.*

The SRF has applied for and received all available capitalization grants through FY1997's federal appropriation. These funds are being committed to local units of government in an expeditious manner. The accompanying charts document the progress made since the inception of the program. An item of particular note is the distribution of funds to smaller communities. A total of 47 loans, or 36.3 percent of loans made, were issued to communities with population less than 10,000. In dollar volume, almost \$124,025,000, or 17.7 percent of total binding commitments went to these smaller communities. To date, the numerical distribution of SRF loans is as follows:

Population less than 3,500	\$ 79,330,000
3,500 to 9,999	\$ 44,695,000
10,000 to 99,999	\$300,935,000
<u>over 100,000</u>	<u>\$281,920,000</u>
TOTAL LOANS	\$706,880,000



6. *To establish an effective program of community environmental education, outreach, and involvement within watersheds.*

The Municipal Facilities Home Page has been improved during the fiscal year, with more information now available over the Internet. Through these continuing efforts, we hope to

foster greater awareness of the need to cooperatively manage our watershed resources and address water pollution problems on the wider watershed scope. The IUP was available this year for public retrieval, as well as other pertinent information about the SRF and DWRF.

The MFS plans to continually expand the amount of information available through this media and will work to provide program forms and guidance which can be downloaded via file transfer protocol. We successfully made a copy of our SRF Database available over the Internet to allow other states to review what we have accomplished in Michigan. Both the states of Indiana and Montana have used this link to examine our work. In addition, we are joining with other states who use the "Clean Water On-line" developed by Mr. Chris Murphy in the EPA's Region 5 office.

The update of the SRF Guidance Document, mentioned earlier in this report, is another example of the outreach undertaken during FY1997. Plans have also been laid out to broaden the Digester newsletter to include drinking water program issues. The newsletter will officially undergo a name change and adopt a broader audience in the Winter 1998 issue.

V. DETAILS OF ACCOMPLISHMENTS

A. Fund Financial Status

1. Binding Commitments: The SRF made 16 additional binding commitments to Section 212 projects during the fiscal year. The state's commitments are made in the form of Orders of Approval issued by the Chief of the Environmental Assistance Division on behalf of the MDEQ.

Chart 1 (*Funded SRF Projects to Date*) provides a complete, chronological list of all projects assisted by the SRF to date. Cumulative loan amounts and number of projects funded in each fiscal year are included.

During FY1997, \$104,160,000 was committed for project assistance. The total cumulative binding commitments to communities equals \$706,880,000 as of September 30, 1997.

These amounts are reflected on Chart 1B and demonstrate how Michigan's SRF satisfies Sec. 602(b)(3) of the federal Clean Water Act. This chart documents Michigan's progress in offering binding commitments to exceed the required 120 percent of federal Automated Clearinghouse (ACH) increases within one year. Through the end of FY1997, Michigan was required to commit \$565,661,258 in loans. In fact, \$706,880,000 has been identified as binding commitments apart from the administrative expenses incurred and paid to date. If we include the actual administrative expenses incurred by the MDEQ and the MMBA to date, which is counted by EPA toward binding commitment, the total is increased to \$719,401,416.

2. Capitalization Grants: The Michigan Water Pollution Control Revolving Loan Fund was awarded a capitalization grant of \$26,798,013 from FY1997 federal funds. This amount was matched by the state with a \$5,359,602 contribution from general funds. Loans were awarded from these funds, remaining uncommitted balances from earlier awards, and from investment earnings and repayments from earlier loans.

Payments on the capitalization grants increased the funds available through the ACH process. The increase in ACH payments made by EPA during the fiscal year was \$57,895,002. An increase in the FY1996 grant of \$31,096,989, and in the FY1997 grant of \$26,798,013 made up the total for the year. Save for a balance of \$55,655,127 on the FY1996 grant, all federal capitalization grants have been increased to the full amount of their awards as of the end of this fiscal year. *Chart 1B* also presents the federal payments to Michigan, by quarter, for each of the awarded federal grants.

3. Other Revenue: In addition to the capital provided by the EPA and the state, principal repayments of \$15,833,138 and interest repayments of \$8,456,062 were made to the SRF by local borrowers of earlier fiscal year funds. Other sources of investment income totaling \$27,137,094, were also generated from fund holdings and will be identified in MMBA's financial reports. The SRF also recovered \$3,450,693 from administratively completed projects during FY1997. This brings total recoveries to \$8,478,283 over the life of the SRF.
4. Disbursements: Additional disbursements of \$99,294,295 were made during FY1997, bringing the total during the program's life to \$534,671,143. This included administrative expenses accrued to the MMBA during the fiscal year in the amount of \$192,216. Expenses accrued to the MDEQ for the same period of time totaled \$2,796,324. **(For the sake of clarity, it should be noted that expenses are accrued for the fiscal year and may not be fully disbursed in cash prior to the end of the year.)** These amounts are identified in *Chart 4, Sources/Uses of SRF Funds*.
5. Audit Report: An audit of MMBA's financial records for the SRF will be forwarded upon completion in the near future. Unaudited financial records will be sent under separate cover from the MMBA.

The last audit concluded by Plant Moran during FY1997 found that the SRF program reporting procedures were in compliance with Generally Accepted Accounting Principles, and also encompassed Generally Accepted Governmental Accounting Standards. The audit supported findings of the 1996 Annual Report, submitted December 27, 1996.

We believe these financial statements reflect the condition of Michigan's SRF and underscore the sound management necessary to ensure the health of the fund in relation to its goals and objectives. This state has fulfilled requirements found at 40 CFR 3135(h) by establishing fiscal controls and accounting procedures to assure proper accounting for payments received by the SRF, disbursements made by the SRF, and SRF balances.

The EPA appears to concur with our assessment. They wrote the following in their review of Michigan's FY1996 Annual Report:

"The audited financial statements, supporting schedules, notes to the financial statements and other related financial data are well-presented, especially, the unqualified opinion expressed by the independent auditors on the financial statements."

6. Credit Risk of the SRF: Michigan undertakes an exhaustive review of each applicant's credit-worthiness. This review examines the financial health of the community and its primary commercial and industrial base. The resulting approval of each applicant provides a sound basis for awarding assistance to only those communities possessing the ability to repay the loan.

No assistance is offered to any community that is unable to demonstrate an investment grade rating. If a community cannot demonstrate a minimum investment grade rating, we expect them to seek credit enhancement or finance through another governmental agency (such as the county). This must be done in order to secure their credit position before the Order of Approval can be written. Michigan's SRF has never suffered a payment default from any municipality borrowing for project costs.

In fact, EPA's comments on last year's Annual Report "*noted that the state has some good review procedures for granting credit. These procedures will minimize, if not prevent, loan defaults and protect SRF assets.*"

B. Assistance Activity

Loan assistance through the MMBA was awarded to each of the municipalities that received an Order of Approval from the MDEQ. These are included in *Chart 1*.

C. Provisions of the Operating Agreement/Conditions of the Grant

The state of Michigan agreed to a number of conditions in the Operating and/or Capitalization Grant Agreement. These conditions are described below:

1. Provide a State Match: The Michigan Legislature appropriated the amount necessary for the 20 percent FY1997 state match. It is held in a state common cash fund administered by the Michigan Department of Treasury. At or prior to the time of each draw on the federal ACH, state funds are deposited to the SRF account through a state transfer process consistent with federal requirements.

The match for projects awarded prior to the start of FY1997 is appropriated from funds that carry no requirement for repayment from SRF capital funds. They were derived from general fund appropriations of the state.

2. Binding Commitments: The state entered into 16 binding commitments to provide assistance from the SRF to local municipalities. By the act of offering these commitments during FY1997, Michigan has exceeded the requirement for award of 120 percent of the payment amount within one year. Documentation of performance is shown in *Chart 1B*.

Additionally, we account for \$2,955,540 in actual administrative expenses, which are also applied against the state's binding commitment requirement. EPA allows the State to account for the full 4 percent of the federal capitalization grants to be applied against binding commitments at the time of each grant award. Michigan has chosen to account only for actual administrative expenses against binding commitments for programmatic reasons.

3. Expeditious and Timely Expenditure of Available Funds: EPA annually reviews the reimbursement process used by the MDEQ and the MMBA to ensure that payments to municipalities are made in a timely and expeditious manner. In most instances, a wire transfer occurs within 10 days of receipt of a request for reimbursement from the local unit of government. The EPA on-site visits have affirmed Michigan's sustained ability to turn payment requests around quickly. The local communities and the contractors know that we will expeditiously handle this important task, ensuring no delays in the flow of funds to the project.

Documents upon which this assessment is based are available for inspection at the MDEQ and the MMBA offices, and are included in the SRF database.

The federal share is provided through the federal ACH. State funds are drawn simultaneously with the federal funds during this time. The state portion is drawn through the treasury inter-accounting system. The draw method used in Michigan satisfies our state requirements to provide a state match prior to, or at the time of, the federal draw on the ACH system.

To date, Michigan's SRF has committed \$706,880,000 in project loans. Administrative expenses, which EPA also counts toward binding commitments equal \$22,681,580, assuming 4 percent of all federal capitalization grants to date. Accounting for the reserve requirement for bonds sold, Michigan is ensuring expeditious commitment of the available money in the SRF to local municipal projects.

4. First Use of Funds for Enforceable Requirements: The EPA Region 5 has concurred with Michigan's certification of these requirements. All communities are either in compliance, under court order with enforceable schedules, under construction, or are funded.
5. Amendments to the IUP: The final IUP and Project Priority List for FY1997 were submitted to EPA on December 26, 1996.
6. Minority and Women's Business Enterprises: In order to meet federal initiatives, the state of Michigan agreed to an overall fair-share objective for FY1997 of 4 percent for Minority Business Enterprise (MBE) and 4 percent for Women's Business Enterprise (WBE). In its attempt to meet this objective, the state advised all potential applicants for SRF loans of this commitment. In addition, the state included a reporting requirement as a special condition in all supplemental agreements executed between the loan recipient, the MDEQ, and the MMBA.

As part of the state's continuing effort to meet the MBE/WBE objective, presentations are made at the pre-bid meetings to explain the federal requirements to potential contractors, subcontractors, and suppliers.

Compliance with the loanee's reporting requirements has shown that the state of Michigan has exceeded its MBE objective for FY1997 by reaching an actual participation of 8.2 percent for MBEs. The goal for WBE participation fell short, finishing FY1997 with 3.07 percent for WBEs. These figures were reported on October 27, 1997 to Mr. Robert Richardson, EPA's MBE/WBE Officer, in the state's required submission during the fourth quarter of FY1997.

In August, 1997, Edward Moyer, manager of the Technical Support Unit, attending a meeting of Region 5 states. The EPA invited the states to discuss changing requirements for determining their MBE/WBE fair share objectives. The states were told that they must now conduct availability studies, or historic overviews, to substantiate the objectives to be established for their federal grant programs, including the SRF.

An historical review of available contractors operating in Michigan's SRF program was undertaken and a recommendation of 5 percent for MBE and 3 percent for WBE participation was forwarded to the MDEQ Office of Financial Services. This more accurately reflected the apparent availability of both minority and women's business enterprises for the SRF program.

The department's final recommendation, however, reflected goals of 4 percent for each class of enterprises.

7. Other Federal Authorities: The state of Michigan requires each municipality to comply with all applicable federal cross-cutting authorities and stipulates that the authorized representative so certify in the application. The Application for Assistance sets forth municipal requirements for compliance with federal cross-cutters.

We seek up-front coordination by involving a wide range of agencies in the Finding of No Significant Impact (FNSI) process during drafting of the Environmental Assessment (EA). These federal, state, and local agencies are given the chance to add input to the project and comment on any cross-cutting issues.

Environmental cross-cutters are typically addressed during review and approval of a project plan. Activities conducted by MDEQ staff are presented in the Project Planning/EA chapter of our SRF procedures manual.

Cross-cutting issues relating to social legislation are dealt with prior to the loan award through applicant certifications mentioned earlier and through follow-up reporting, such as in the case of MBE/WBE requirements.

Our staff procedures manual outlines the appropriate response in the event cross-cutting issues arise. When warranted, we coordinate contacts with appropriate agencies. If necessary, the state will seek assistance from EPA for help with non-agency federal offices.

8. State Environmental Review Process: The 16 communities receiving assistance during FY1997 were reviewed and approved using the state's environmental review procedures. It was determined that no Environmental Impact Statements (EIS) were necessary, instead an EA was prepared and a FNSI was issued for each project.
9. Consistency with Planning: No project plan in the state of Michigan can be approved without sign-off from the appropriate 208 planning agency, which documents the submittal is consistent with regional planning. Assurance of this review is inherent within each and every plan we approve.

Section 205(j) and 303(e) requirements are administered separately from the SRF by various sections of the MDEQ Surface Water Quality Division. Grants have been made to several local and regional entities to carry out water quality management planning. Sec. 303(e) requirements are satisfied via our state permitting process. In order to continue Michigan's delegated permit writing program, the state must comply with Section 303(e). Prior to receiving the first capitalization grant, this office verified the existence of an approved planning process. The EPA's continued recognition of our delegation is proof that we remain in compliance.

10. Cash Disbursements: Procedures are executed in conjunction with the MMBA. The MDEQ receives requests for disbursements from the local municipalities. We review them for content and accuracy and then transmit them simultaneously to the MMBA and the MDEQ's Office of Financial Services. The respective offices will process a request for a state match transfer into the SRF and process a request to draw on the federal ACH system in accordance with 40 CFR 35.3135(b)(1). Once in the SRF account, MMBA processes a wire transfer of funds to the local municipality.

11. Administration of the SRF: The MDEQ has agreed to administer the SRF in accordance with its application, IUP and the Operating Agreement. In doing so, certain administrative procedures are implicit. The operation of the fund is bound by the following provisions:

- **agreement to accept payments**
- **state laws, rules, and procedures**
- **state accounting and auditing procedures**
- **recipient accounting and auditing procedures**
- **use of the ACH federal payment system**
- **repayment**
- **annual audit requirements**
- **annual report**
- **annual review**

To the extent of any conflict amongst these documents, the MDEQ further agreed that terms of the Grant Agreement will prevail.

12. Automated Clearinghouse: Michigan has agreed to accept payment from EPA through the ACH system and has abided by cash draw rules.
13. Legal Certifications: The state of Michigan has provided all necessary certifications from the state Attorney General's office, which attest to its ability to implement the SRF and bind itself to the terms of the Capitalization Grant Agreement. The certification for the FY1997 capitalization grant was dated December 23, 1996.
14. Cash Draw Schedules: The cash draw figures set forth in *Chart 5, Project Disbursements*, reflect chronological disbursements made to each project during the fiscal year. In its final IUP for FY1997, Michigan had requested no cash draws in the first quarter; \$24,579,835 in the second quarter; \$25 million in the third; and \$27,961,238 in the fourth quarter. Charts 1B and 4 both reflect the actual ACH activity during the current fiscal year, as well as show the historical summary of all draws to date. There are differences between amounts requested in the IUP and actual amounts.

To date, the SRF has received capitalization grant payments of \$511,384,382. The federal share of all disbursements drawn to date equals \$445,541,463. The state draw share during the same period amounts to \$89,129,680. At the end of the 1997 fiscal year, \$65,842,919 remained to be drawn against capitalization payments requested to date.

VI. SIGNIFICANT PROJECT ACCOMPLISHMENTS OF THE SRF

To date, Michigan's SRF has awarded \$706.88 million in loans and has disbursed \$534,671,143. This represents 75.64 percent outlays of loan awards to date for projects. We have awarded 82.9 percent of the funds available, with the balance held on reserve against bond default. Interest repayments from earlier awards are being held for possible repayment of state revenue match bonds for future issues. Principal payments from these loans and investment earnings have been building and will be used to supplement declining federal capital contributions. This strategy allows us to better maintain program expectations with the municipal, consulting, and contractor stakeholders.

Of the total amount loaned during FY1997, \$11,666,200 has been used to fund construction of sewage treatment facilities; \$23,094,096 for sewer rehabilitation projects; \$60,550,000 for collector and interceptor sewers; and \$8,849,704 for CSO abatement.

The interest rate for projects funded during the first five years was 2 percent. For 1995 projects and beyond, it increased to 2.25 percent. This is equivalent to grants of approximately 40 percent, when compared against the average open market.

The SRF is proving to be much more efficient in administratively completing projects than the predecessor Construction Grants Program. A list of all projects administratively completed through September 30, 1997 is included as Chart 8. Staff administratively completed 27 projects during the fiscal year, bringing the total completed to 62. This total represents 47.7 percent of all loans awarded to date.

Chart 7 - Project Initiation of Operation (I/O) Dates, demonstrates the projects that have actually commenced operation during FY1997.

To date, Michigan's SRF has gone to the market for six issues. Bonds totaling \$91,110,100 were sold in 1992. In 1993, \$102,220,000 were sold. The third issue in early 1995 totaled \$87,280,000, while the fourth issue was sold for \$86,290,000 in May, 1996. A fifth issue was sold for \$132,500,000 in June, 1997. These bonds are used to provide disbursement proceeds for project draws and are timed to cover a period running from 12 to 15 months at a time. In addition to the regular bond sales, a refinancing of \$86,750,000 was conducted in August, 1996 to defease series 1992A and 1994 bonds.

The most significant project accomplishment during FY1997 involved the Wayne County Downriver area. In October, 1988, EPA and the Michigan Department of Natural Resources brought suit in federal court against Wayne County and 13 Downriver communities. The lawsuit cited the failure of the Wyandotte Wastewater Treatment Plant to meet effluent limitations, as well as violations resulting from repeated releases of untreated sewage from the Downriver Collection System.

The Downriver Collection System is characterized as a "wet sanitary" system. Significant amounts of storm water inflow and rainfall-dependent infiltration created two serious problems. First, heavy rainfall resulted in discharges of untreated sewage into the Detroit River and area creeks and drains. Second, the lack of sufficient capacity in the system to transport wastewater during rainstorms produced a condition causing the wastewater to back up into smaller collector sewers, resulting in basement flooding in area homes and businesses.

Improvements funded with the SRF include rehabilitation of existing collector sewers, installation of relief sewers, separation of combined sewers, and construction of regional storage to retain excess wet weather flows. The Wyandotte Wastewater Treatment Plant also received upgrades with assistance from the SRF. In total, the cost for the entire project is expected to be approximately \$280 million.

It is expected that this major investment of funds for the Downriver projects will reduce wet weather inflows and significantly diminish the basement flooding and sewage bypasses into area waterways. The success of the project has rested largely on the cooperation of the local units of government working closely with staff from the MDEQ. A major portion of the project funding is now complete, making the Downriver project the most significant program accomplishment during FY 1997.

VII. CONCLUSIONS

Michigan's SRF program has matured into a well run and well received financing program. The state has been able to deliver its available funds in a manner that emphasizes consistency of environmental review, financial capability standards, as well as delivery of reimbursement for project costs. There have been 130 projects funded to date, delivering over \$708 million in loans. The moneys which capitalize the SRF are now derived predominately from repayments and earnings on investments. The original intention of

developing the SRF as a revolving, self-supporting fund is now being realized. Although the annual federal contribution is still present, it accounted for less than one-third of the total capital pool this year.

Staff of the Municipal Facilities Section have continued to effectively manage the SRF program for water pollution control, while investing significant time in developing the new Drinking Water Revolving Fund. While additional staff were authorized in the MDEQ budget, the hiring process could not commence until FY1998 was well underway. The MFS staff has worked diligently to ensure that both programs received full attention during this fiscal year. We believe that the staff commitment to each program is the principal reason that Michigan's revolving fund programs will continue into the future with high visibility and success.